

Message Text

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ACTION ARA-10

INFO OCT-01 AF-08 EUR-12 EA-07 NEA-10 ISO-00 FEA-01
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
EB-08 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
TRSE-00 ACDA-07 PA-01 PRS-01 /138 W
-----280639Z 072973 /10

R 271817Z JAN 77

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 6388

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USINT BAGHDAD

AMCONSUL DHAHRAN

C O N F I D E N T I A L CARACAS 0873

E.O. 11652: GDS

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TAGS: ENRG, OPEC, VE

SUBJECT: (A) CARACAS 217 (B) CARACAS 714 (NOTAL)

1. SUMMARY. WHILE GOV OFFICIALS CONTINUE TO EXPRESS CONFIDENCE
IN PUBLIC THAT OPEC WILL RESOLVE ITS DIFFERENCES OVER PRICES
IN DUE TIME, THERE APPEARS TO BE REAL CONCERN THAT THE
ORGANIZATION'S UNITY, AND THUS FUTURE EFFECTIVENESS, MAY HAVE

BEEN SERIOUSLY DAMAGED. IT IS WIDELY BELIEVED THAT AN EXTRA-ORDINARY MINISTERIAL MEETING WILL BE HELD, BUT PROBABLY NOT IN THE NEAR FUTURE, AND THAT THERE WILL AT LEAST BE SOME INCREASE IN SAUDI PRICES IN EXCHANGE FOR AGREEMENT BY THE OPEC MAJORITY TO DROP THE SCHEDULED JULY 1 INCREASE. MEANWHILE, VENEZUELAN PRODUCTION AND EXPORTS ARE CONTINUING AT RELATIVELY HIGH LEVELS, IN LARGE PART TO MEET THE CURRENT HEAVY DEMAND IN THE U.S. END SUMMARY.

2. GOV OFFICIALS, IN PARTICULAR, MINISTER OF ENERGY AND MINES VALENTIN HERNANDEZ, CONTINUE IN PUBLIC TO TAKE AN OPTIMISTIC BUT UNHURRIED ATTITUDE TOWARD PROPOSALS FOR AN EXTRAORDINARY MEETING OF OPEC MINISTERS. HERNANDEZ HAS SAID REPEATEDLY SINCE HIS RETURN FROM THE DOHA MEETING THAT WHILE VENEZUELA FAVORS SUCH A MEETING, IT SHOULD BE HELD ONLY WHEN CONDITIONS ARE RIGHT, THAT IS, WHEN IT CAN DEAL WITH CONCRETE MATTERS AND AGAIN REACH UNANIMOUS AGREEMENT ON PRICES. HE CITED THESE CONDITIONS MOST RECENTLY IN DENYING PRESS REPORTS THAT VENEZUELA HAD JOINED WITH IRAQ IN PROPOSING AN EXTRAORDINARY MEETING. AT THE SAME TIME, HOWEVER, HE DID CONFIRM THAT PRESIDENT PEREZ RECENTLY HAD BEEN IN CONTACT WITH OTHER OPEC HEADS OF STATE BUT DID NOT DISCLOSE THE SUBJECT. HERNANDEZ DENIES THE EXISTENCE OF A CRISIS IN OPEC, AND SAYS IT WILL TAKE SOME TIME BEFORE THE MARKET EVOLVES TO THE POINT WHERE THE EFFECTS OF THE TWO-TIER PRICE SYSTEM BECOME CLEAR. FINALLY, HE MAINTAINS THAT PRODUCTION INCREASES BY SAUDI ARABIA AND THE UAE WILL BE ABSORBED BY WORLD MARKETS AND THAT VENEZUELAN EXPORTS WILL NOT SUFFER.

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3. NEVERTHELESS, THERE APPEARS TO BE A VERY REAL CONCERN, BOTH IN AND OUT OF THE GOVERNMENT, AS TO THE EFFECT OF THE PRICE SPLIT IN OPEC ON THE ORGANIZATION'S FUTURE UNITY AND EFFECTIVENESS. ITS EFFECT ON VENEZUELAN EXPORTS SEEMS TO GENERATE LESS IMMEDIATE CONCERN. THE MAJOR OPPOSITION PARTY, COPEI, EXPRESSED THIS CONCERN IN GENERAL TERMS IN ITS RECENT ANNIVERSARY MESSAGE, CALLING ON THE GOV TO IMPLEMENT A STRATEGY TO AVOID THE DANGERS THREATENING OPEC, WHICH IT TERMED THE BEST INSTRUMENT OF DEFENSE OF VENEZUELAN NATIONAL INTERESTS. A MORE SPECIFIC STATEMENT BY THE HEAD OF THE NATIONALISTIC, LEFTIST-ORIENTED PRO VENEZUELA ASSOCIATION PRESSED THE GOV TO TAKE THE LEAD IN RE-ESTABLISHING OPEC UNITY, AND SUGGESTED THIS COULD BE DONE WITH A PRICE INCREASE EQUIDISTANT BETWEEN THE TWO LEVELS FIXED IN DOHA. COLUMNIST DOMINGO ALBERTO RANGEL, A STRONG LEFTIST, TOOK THE GOV TO TASK IN EVEN STRONGER TERMS, CLAIMING THAT VENEZUELA COULD (AND SHOULD) HAVE AVOIDED THE PRICE SPLIT IN THE FIRST PLACE BY PLACING OPEC UNITY ABOVE ALL, AND CONVINCING THE OTHER OPEC MEMBERS TO ACCEPT THE SAUDI FIVE PERCENT INCREASE.

4. IN PRIVATE CONVERSATIONS, GOV OFFICIALS BELOW THE MINISTERIAL LEVEL ALSO ARE CONCERNED ABOUT THE EFFECT OF THE DOHA DECISION ON OPEC AS WELL AS ON VENEZUELAN EXPORTS BEYOND THE FIRST QUARTER, BUT THEY GENERALLY ASSUME THIS DECISION WILL BE AMENDED BEFORE THE NEXT SCHEDULED MEETING OF OPEC MINISTERS JULY 12. THERE IS WIDESPREAD EXPECTATION THAT THE FIVE PERCENT INCREASE DUE JULY 1 WILL BE DROPPED, WHICH IN ITSELF WILL REQUIRE A FORMAL MINISTERIAL MEETING PRIOR TO THAT DATE. HOWEVER, THERE APPEARS TO BE LITTLE INTEREST HERE IN HAVING SUCH A MEETING IN THE VERY NEAR FUTURE, AND, IN KEEPING WITH THE MINISTER'S POSITION, MOST OFFICIALS DO NOT EXPECT IT TO BE HELD UNTIL AFTER THE FIRST QUARTER, BY WHICH TIME THE MARKET SITUATION SHOULD BE CLARIFIED. AS TO THE LIKELY OUTCOME OF SUCH A MEETING, THESE OFFICIALS ASSUME THE OPEC MAJORITY WILL AGREE TO FOREGO THE JULY 1 INCREASE AND IN EXCHANGE THEY LOOK FOR A SAUDI INCREASE RANGING FROM

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AN ADDITIONAL TWO TO THREE PERCENT ABOVE CURRENT LEVELS UP TO FULL AGREEMENT ON THE ORIGINAL 10 PERCENT (\$1.19 PER BARREL) INCREASE. AN IMPORTANT FACTOR IN THE VENEZUELAN POSITION IS LIKELY TO BE THE JUDGEMENT OF PETROVEN'S MARKETING DIRECTOR ALIRIO PARRA, WHO TOLD US HE BELIVES WORLD MARKETS AND PARTICULARLY VENEZUELA CAN ADAPT WITHOUT SERIOUS PROBLEMS TO THE PRESENT FIVE PERCENT SPREAD, BUT THAT A TEN PERCENT DIFFERENCE IN CRUDE PRICES WOULD CAUSE MAJOR DISRUPTIONS.

5. VENEZUELAN EXPORTS ARE CLEARLY NOT SUFFERING AT THE PRESENT TIME. PRODUCTION FOR THE FIRST FEW WEEKS OF JANUARY HAS AVERAGED CLOSE TO 2.4 MILLION B/D, OR ABOUT 100,000 B/D ABOVE THE 1976 AVERAGE, OF 2.3 MILLION, WHICH WE ALSO UNDERSTAND IS THE MAXIMUM AVERAGE PRODUCTION RATE ESTABLISHED BY THE MINISTRY OF ENERGY FOR 1977. WHILE THE MINISTRY ANNOUNCED THAT THIS ADDITIONAL PRODUCTION WAS NEEDED TO REBUILD STOCKS, WE UNDERSTAND FROM PETROVEN OFFICIALS THAT IN FACT IT IS CURRENTLY BEING REFINED AND GOING DIRECTLY INTO EXPORT TO MEET UNUSUALLY HIGH U.S. DEMAND FOR FUEL OIL. THIS DEMAND HAS ALSO ALREADY VIRTUALLY DRAINED THE LARGE OPEN AIR FUEL OIL STORAGE PITS USED FOR SEASONAL STORAGE. REFINERY THROUGHOUT IS RUNNING AT ABOUT 1 MILLION B/D, PROBABLY THE HIGHEST LEVEL SINCE NATIONALIZATION. AS REPORTED IN REF. A, THE MAJOR EX-CONCESSIONAIRES EXPECT TO MAINTAIN NORMAL OFFTAKE LEVELS FOR CRUDE AND REFINED PRODUCTS FOR AT LEAST THE FIRST QUARTER. WE HAVE NOW ALSO CHECKED WITH SHELL AND AMOCO ON THIS POINT. SHELL'S LOCAL REPRESENTATIVE TOLD US THAT WHILE PETROVEN HAD CUT THEIR OFFTAKE BY ABOUT 10 PERCENT IN ACCORD WITH THEIR OFFTAKE CONTRACT, THE COMPANY HAD ACCEPTED THE NEW PRICES AND WOULD TAKE THE FULL AMOUNT MADE AVAILABLE FOR THE FIRST QUARTER. WE HAVE ALSO BEEN TOLD BY OTHER SOURCES, HOWEVER, THAT SHELL MIGHT BE REDUCING OFFTAKE

TEMPORARILY DUE TO SCHEDULED MAINTENANCE AT ITS CURACAO REFINERY.
AMOCO SAID IT HAD INITIALLY PROTESTED THE NEW PRICES BUT HAD
NOW ACCEPTED THEM AND WOULD NOT REDUCE 1ST QUARTER 1977
OFFTAKE FROM ITS 1976 LEVEL.

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
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Copy: SINGLE
Sent Date: 27-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
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Original Handling Restrictions: n/a
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SAS ID: 3488811
Secure: OPEN
Status: NATIVE
Subject: (A) CARACAS 217 (B) CARACAS 714 (NOTAL)
TAGS: ENRG, VE, OPEC, (HERNANDEZ ACOSTA, VALENTIN)
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/9bcc38d0-c288-dd11-92da-001cc4696bcc
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